

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Statutory Review Of The System For Regulating Rates And Classes For Market Dominant Products)))	Docket No. RM2017-3
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Initial Comments of Valassis

(March 1, 2018)

Pursuant to Order No. 4258, Valassis submits these comments on the Commission's proposed revisions to its system of rate regulation. While Valassis understands the Commission's desire to make changes to this system to help improve the Postal Service's long-term finances and commends the Commission for maintaining a pricing system that includes a cap, it urges the Commission to consider modifications to its proposal to avoid undoing the significant benefits the predictability and stability of CPI-based price cap regulation has provided the industry since the enactment of the Postal Accountability and Enhancement Act ("PAEA").

Valassis is one of the nation's leading media and marketing services companies, delivering advertising messages and values to up to 116 million households each week. Last year, Valassis entered more than 3 billion pieces of mail containing nearly 40 billion pieces of advertising into the postal system. As one of the largest mailers, Valassis helps thousands of local and national brands tap the potential of industry-leading data through intelligent media delivery – understanding, engaging and inspiring millions of consumers to action with smarter cross-channel campaigns. We've been a part of consumers' lives for decades, delivering significant opportunities for cost savings on products that consumers buy every day, as well as introducing new ways to deliver offers and messages that activate them. We continue to identify ways to innovate our print solutions to meet the demands of today's consumers.

As one of its largest customers, Valassis has been and remains committed to the long term viability of the Postal Service. We have long advocated for comprehensive postal reform legislation and understand that the ultimate solution to the Postal Service's financial challenges is in the hands of Congress. We remain committed to continuing our efforts to help enact comprehensive postal reform legislation in Congress. Valassis is an eager and engaged partner in growing mail volumes and supporting the long term success and viability of the Postal Service. Our continued and substantial investment in data and analytics aimed at anticipating consumer behavior, influencing their purchase habits and providing greater return on investment for advertisers through integration of print and digital advertising mediums, as well as an expanding portfolio of new mail markets and products, is proof of that support.

As such, we have thoughtfully evaluated the Commission's proposed changes to the current CPI-based rate cap structure for market dominant mail, particularly with regard to how it will impact our more than 62,000 clients and the growth and sustainability of mail volumes over time in light of other price assertive advertising choices in the marketplace.

Valassis understands that when it comes to ensuring the overall health of the Postal Service the Commission's role is somewhat limited. The PAEA required the Commission to review the system for regulating rates and classes for market dominant products 10 years after its implementation to determine if the system had achieved the objectives of 39 U.S.C. § 3622(b), taking into account the factors enumerated in 39 U.S.C. § 3622(c), and the Commission can only exercise the authority granted to it by statute to reform this system. While the Commission could make numerous changes to the current system that would increase oversight, enhance incentives for efficiency, and encourage and guide innovation, it cannot alone solve the financial problems

caused primarily, as the Commission found in Order No. 4257, by the Postal Service's excessive retiree benefit prefunding requirements.

While in the context of comprehensive legislative reform some mechanism for providing additional revenue for the Postal Service may make sense, the long term financial stability of the Postal Service cannot be achieved solely through rate increases. Moreover, the proposed changes to the rate structure will impact our shared goal of achieving long term stability for the Postal Service in the absence of enactment of meaningful legislative reforms.

First, it is important to emphasize that the current price cap has provided benefits to both the Postal Service and the mailers. It has allowed the Postal Service to respond to market factors and changes in demand by providing it with significant pricing flexibility within classes. And the predictability and stability of the CPI-based price cap has allowed Valassis to achieve year over year growth in our mail in 8 of the last 10 years. Valassis believes an efficient, predictable, and stable rate structure must be maintained for this growth to continue.

For this reason, while we commend the Commission for understanding the need for a continued cap in the rate structure going forward,¹ the rate setting system as proposed by the Commission could undermine the benefits of the CPI cap and negatively affect the potential for growth in postal volumes in the future. By allowing significant increases in rates above CPI, the proposed system risks driving volume out of the mail, further decreasing Postal Service revenues, and undermining the objectives of financial stability, rate stability, and incentives for efficiency that the proposals are intended to achieve. Additionally, the proposal impacts the objective of providing predictability in rates by allowing the maximum permissible rates to

¹ Notice of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products, December 1, 2017 (Order No. 4258) at 34 (stating that "the Commission determines that it would be inappropriate to design a system that lacks a mechanism to limit the magnitude of price adjustments. Such a mechanism is necessary to create predictability and stability, as required by Objective 2.").

change based on fluctuations in productivity and service standards. As the Postal Service's performance on productivity measures cannot be reasonably predicted in advance, mailers would have less ability under the proposed rules to predict likely rate increases in upcoming years, thereby negatively impacting the innovation and investment necessary for future mail growth.

Taking these issues in reverse order, the Commission's proposed system would introduce unpredictability into the amount of allowed increase through its Performance Based Rate Authority allowance of up to an additional 1% above CPI. Of particular concern is the 0.75% of this additional authority that is tied to the rate of growth in Total Factor Productivity ("TFP"). Unlike changes in CPI, which can be generally predicted in advance based on publicly available information, the change in TFP for a particular year is not known until it is reported by the Postal Service after the fact. Similarly, it cannot be known in advance whether the Postal Service will change service standards within a year, and mailers cannot, therefore, predict whether the Postal Service will be granted the extra 0.25% of rate authority available if it maintains service standards at existing levels. Consequently, mailers cannot predict whether they will be subject to increases of CPI+2%, CPI+3%, CPI+2.75%, or CPI+2.25% in upcoming years. The uncertainty could increase even further if a product a mailer uses fails to cover its attributable costs in a particular year, in which case it would face an additional increase of 2% above CPI. As with TFP, it is not known whether a product has covered its attributable costs until the Postal Service reports that information in its Annual Compliance Report.

Marketers must plan their campaigns well in advance. Further, decisions about the target audience and the preferred channels depend on the anticipated Return on Investment ("ROI") from the campaign. The major component of ROI in mail marketing campaigns is the cost of postage. Rate authority that would "flex" based on cost coverage and operational efficiency,

therefore, increases uncertainty in the expected ROI of a mail campaign. Our experience tells us that in environments marked by uncertainty, clients will quickly shift to other media and channels offering greater price stability. The increased uncertainty the Commission's proposals would introduce would likely drive our clients to explore alternative media channels, such as television and web based channels, further exacerbating the decline of mail volume. The level of unpredictability will only increase as a wider range of rates available to the Postal Service grows with an ever-changing cap authority. This will not only hamper the potential for increasing mail volumes but will also present challenges as we work with our clients to develop and invest in innovative mail products aimed at increasing consumer engagement in the mail.

Finally, our years of experience with marketers tells us that there is a strong correlation between price increases and negative impacts to mail volumes. The Commission's proposal would allow rate increases of up to 5% above CPI per year for certain products, and all products could face increases of at least 2% above CPI. It is impossible to predict exactly what impact increases of this magnitude will have on mail volumes because there is nothing in the recent history of the Postal Service to compare them to. They will surely reduce mail volume, however. The question is only to what degree. The Commission has acknowledged that mail volume will likely decline in the future, but it has not accounted for the impact of this decline in determining what level of additional rate authority to provide the Postal Service.² We encourage the Commission to consider the impact rates will have on mail volumes into the future. It's easy to predict the combination of unpredictability and increases markedly above CPI levels creating scenarios wherein the mailing industry will not be able to adapt or cut costs quickly enough to keep up with these changes *even in fully committed mail channels*. Not only will alternative

² Order No. 4258 at 54 (stating that given the trend of declining market dominant product volumes and mailers predicted responses to price increases, "the Postal Service will need to improve operational efficiency to achieve financial stability.").

media channels become increasingly attractive, but the cost of doing business may simply become too high, causing a precipitous and unrecoverable drop in mail volume.

In fact, it is important to note that tremendous volatility currently exists in media spending allocations from marketers. Spending on digital advertising has increased as advertising budgets overall have declined in recent years, thereby exacerbating the impact on print and mail advertising even with the stability provided by the current postal rate system. Winterberry has reported only 2.9% growth in U.S. advertising and marketing spend for 2017, while traditional media declined -3.1%, direct mail declined -4.3% and print media in particular experienced double-digit declines of -10.9% for newspapers and -14.8% for magazines. At the same time, the primary driver of advertising and marketing spend growth has come from digital media, which was up 16.6% in 2017.³

We believe the Commission should consider options aimed at striking a balance between mailers, the Postal Service, and the objectives established under the PAEA, while also taking rate stability and growing mail volumes into account. We understand and appreciate the Commission's goal of improving the Postal Service's financial position, but we believe the best way to accomplish this shared goal is through a balanced approach that avoids a feedback loop of declining mail volume, a cycle that may ultimately leave the Postal Service in a worse financial position than the one in which it had started. Instead, we urge a resolution that will improve the Postal Service's financial stability through stable and increased mail volume, which will be to the benefit of all parties involved.

While Valassis commends the Commission on their effort in drafting this initial proposal for a new rate structure, we respectfully suggest that the Commission make adjustments to the

³ Winterberry Group, Outlook for Data-Driven Marketing – First Look for 2018, (Jan. 10, 2018).

proposal to ensure the benefits of a price cap are not undermined and to provide for the stability necessary to maintain and grow mail volume, an outcome that will be beneficial for both mailers and the Postal Service. With further refinement, we believe the Commission can craft a system that ensures the financial stability of the Postal Service through a system of predicable and efficient rates.

Respectfully Submitted,

/s/ Wayne Powers

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